FILED
OCT 23 1998
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 98-322

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

EXXON CORPORATION AND
EXXON CHEMICAL PATENTS, INC.,
Petitioners,

v.

THE DOW CHEMICAL COMPANY,
Respondent.

On Petition for a Writ of Certiorari To The United States Court of Appeals For the Federal Circuit

REPLY TO BRIEF IN OPPOSITION

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REPLY TO BRIEF IN OPPOSITION

I. THE FEDERAL CIRCUIT HAS SANCTIONED A NEW SPECIES OF PATENT-RELATED DAMAGES LITIGATION BASED SOLELY ON INEQUITABLE CONDUCT BEFORE THE PTO.

Dow accuses Exxon's petition of "rest[ing] on two false premises" (Opp. 1-2), but, in fact, Dow's opposition reinforces the petition's foundations.

1. Exxon's argument that the Federal Circuit has sanctioned a damages action based only upon alleged misconduct before the PTO was based on the facts that (1) the only bad faith which Dow alleged in its complaint was Exxon's purported inequitable conduct before the PTO and Exxon's continuing knowledge of that conduct when it gave patent infringement notices to Dow's customers (Pet. 14); (2) the district court held that Dow had conceded that its claim was based "solely" on inequitable conduct before the PTO (*id.* at 13); (3) Dow did not dispute that holding in its appeal below (*id.*); and (4) the Federal Circuit panel majority agreed that "without the alleged inequitable conduct before the PTO there would likely be inadequate proof of bad faith" to sustain Dow's tortious interference claim (*id.*).

Dow responds to Exxon's argument — which Dow concedes is supported by the dissenting judge below (*see* Opp. 11 n.3) — by contending that Exxon has engaged in "mere wordplay" (*id.* at 10). Dow says now that it alleged Exxon's inequitable conduct in the PTO "*only as evidence* that Exxon knew that its patent was unenforceable, and thus as evidence that Exxon acted in bad faith" when it gave its infringement notices. (Opp. at 10, emphasis added). The fact is, however — and Dow does not deny it — Exxon's conduct before the PTO is *the only evidence* that Dow has ever alleged with respect to Exxon's purported bad faith. Accordingly, there is

no "fact-specific dispute" as to the proper characterization of Dow's claim. (Opp. at 11). Instead, this case crisply presents the legal issue whether a party can seek damages against the owner of a lawfully issued patent for giving infringement notices, when the only evidence of "bad faith" is its purported inequitable conduct before the PTO.

2. The second "false premise" that Dow purports to refute is Exxon's argument that the decision below sanctions a "new species of patent-related state law damages litigation" (*see* Pet. at 7), which correctly characterized the dissenters' view below that "a whole new field of litigation [will be] opened up" (*id.*, App. 44a). According to Dow, this case involves merely "a garden-variety state-law unfair competition claim," with an "ancient pedigree" (Opp. at 2) predating the arrival of the Pilgrims at Plymouth Rock (*id.* at 14).

Whatever the common law origins of Dow's general cause of action, just like the Federal Circuit in the decision below and in *Hunter Douglas, Inc.* v. *Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), Dow has failed to cite a *single* prior case that allowed the imposition of damages — whether for unfair competition or other business torts — on the basis of either inequitable conduct at the PTO or bad faith provision of infringement notices stemming from that conduct. To the contrary, Dow's cases suggest only that allegations of such bad faith enforcement of a patent can be used defensively either as a patent misuse *defense* to liability (as in *Virginia Panel Corp.* v. *MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997), *cert. denied*, 67 U.S.L.W. 3013 (Oct. 5, 1998), or in an action to *enjoin* the infringement threats (as in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 710 (Fed. Cir. 1992)). The offensive use of such allegations to impose damages liability on a patentholder is unprecedented.

Dow's assertion that the Federal Circuit "simply declined to undertake a radical rollback of traditional unfair competition law in cases involving patents" (Opp. at 2) unravels with the mischaracterization of its case as just another "garden-variety" unfair competition claim. Moreover, there is nothing "radical" in imposing preemption limitations on state unfair competition claims to protect the integrity of a federal statutory scheme. This is the very action that this Court took last term in *American Telephone & Telegraph Co.* v. *Central Office Telephone, Inc.*, 524 U.S. ___, 118 S. Ct. 1956 (1998), a case that Exxon heavily relied upon and Dow nowhere discusses.[1/] There was similarly nothing "radical" in *Linn* v. *United Plant Guard Workers of America*, 383 U.S. 53, 65 (1966) — another case cited by Exxon and ignored by Dow — when this Court held that state law libel actions could not be pursued in a labor relations context without proof of actual malice because of the preemptive force of the National Labor Relations Act.

II. DOW'S MISCHARACTERIZATIONS OF EXXON'S ARGUMENT CANNOT STAND IN THE WAY OF GRANT OF THE PETITION.

1. Dow's inability to come to grips with the arguments that Exxon has made in its petition is evinced by its construction of an argument, which it attributes to Exxon, "that a state-law cause of action is preempted whenever it

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[1/] The so-called "background norm [of] a strong presumption against" preemption (Opp. 6, citing *Cipollone* v. *Liggett Group, Inc.*, 505 U.S. 504, 516, 518 (1992)), was nowhere referred to by this Court in *AT&T*, nor in any of the patent preemption cases discussed by the Federal Circuit in its opinion in this case. (Petn. App. 8a-10a). *See also*, *Barnett Bank* v. *Nelson*, 517 U.S. 25 (1996), where another comprehensive federal statutory scheme was held to preempt state law without any discussion of "the background norm" referred to by Dow.

involves the validity or enforceability of a patent." (Opp. at 11). Exxon has argued no such thing to this Court.

Exxon's argument is the quite different one that Dow's cause of action is preempted because it asserts a damages remedy for Exxon's protected activity of providing infringement notices that under the patent laws are a prerequisite to the recovery of damages in an infringement suit. (Pet. 9-12) Dow's suit, therefore, aims at the heart of what even it concedes is the first objective of the patent law — *i.e.*, providing the incentive to invent. (Opp. 7, citing *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480-81, 484 (1974)). Exxon's preemption argument is not about the issues of federal patent law that state courts can decide. It is, instead, about the chilling effect upon holders of lawfully issued patents that inevitably arises when they are made liable for damages by virtue of giving the notices of infringement contemplated by the patent laws.

2. In heated rhetoric, Dow charges that "[w]hat Exxon seeks here . . . is nothing less than absolute immunity for its commercial misconduct" that would lead to a "legal no man's land." (Opp. 14-15). This assertion is wrong for at least two reasons:

First, Exxon's argument is narrowly focused upon cases where the only allegation of bad faith flows from a patentholder's inequitable conduct before the PTO. There remain many other types of "commercial misconduct" by patentholders — *e.g.*, illicit sales practices — for which state law damages remedies are available.

Second, Exxon does not seek "absolute immunity" for even the type of claims that Dow seeks to advance here. Instead, it is Exxon's position that under *Walker Process*

Equipment, Inc. v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), Dow must allege and then prove actual fraud — not merely inequitable conduct before the PTO — before pursuing a damage claim based upon a patentholder's provision of infringement notices.

III. DOW'S *WALKER PROCESS* ARGUMENT HAS BEEN REJECTED BY THE FEDERAL CIRCUIT.

Dow's contention that Exxon somehow waived the *Walker Process* argument by first making it on rehearing ignores the fact that Judge Lourie's dissenting opinion as a member of the merits panel cited *Walker Process*.[2/] (Pet. App. 23a). It also ignores the fact that in *Hunter Douglas*, 153 F.3d at 1336, which made it clear that this case established the law of the Federal Circuit, the court of appeals carefully (if incorrectly) distinguished between the "knowing and willful" fraud requirement of *Walker Process* as a prerequisite to a damages action based solely upon a patentholders' conduct before the PTO and the less demanding "bad faith" test which the lower court applied in this case and in *Hunter Douglas* for determining preemption of damages claims that also involve infringement notices.

Hunter Douglas also disposes of Dow's two other *Walker Process* arguments. Its assertion that *Walker Process* does not involve "preemption at all," but rather is an "accommodation" between the policies of the patent and antitrust laws (Opp. 13), ignores the Federal Circuit's holding in *Hunter Douglas* that the actual fraud of *Walker Process* is required to avoid

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[2/] Compare *Lebron* v. *National Railroad Passenger Corp.*, 513 U.S. 374, 379-80 (1995), where this Court entertained an argument that had not been made at any point below.

preemption of a state common damages action that is based solely upon inequitable conduct before the PTO. 153 F.3d at 1335-36.

Similarly, Dow's argument that it is "immaterial" whether it attached the "particular label" of "inequitable conduct," instead of "fraud" (Opp. 13), to its allegations ignores *Hunter Douglas*' distinction, 153 F.3d at 1336, between the higher burden of proof required to show fraud in cases seeking damages based solely on inequitable conduct before the PTO and the less demanding requirement of inequitable conduct for damages suits when the plaintiff also complains of infringement notices. *See also Nobelpharma A.B.* v. *Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir.), *cert. denied*, 67 U.S.L.W. 3197 (Oct. 5, 1998) ("[i]nequitable conduct in fact is a lesser offense than common law fraud, and includes types of conduct less serious than 'knowing and willful' fraud").[3/]

IV. DOW HAS NOT REFUTED EXXON'S SHOWING THAT THE BROAD IMPLICATIONS OF THE FEDERAL CIRCUIT'S DECISION SUPPORT GRANT OF THE PETITION.

1. Dow describes as a "naked appeal to policy," which is best addressed to Congress (Opp. 13-15), Exxon's reliance upon the dissenters' description of the "plague" and "mischief" unleashed by the Federal Circuit in this case. While, of course, Congress can always correct courts' misreading of statutory law, such as the failure to perceive the intended preemptive effect of a statute, this Court routinely

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[3/] Dow conflates fraud and inequitable conduct by arguing that "fraud is a *form* of inequitable conduct." (Op. 13). This statement, while true, certainly does not establish that inequitable conduct is a form of fraud.

corrects lower court errors in resolving preemption issues — especially when they have widespread impact, like the Federal Circuit's decisions here.

2. Notably, Dow does not — because it cannot — argue that the state-law damages action sanctioned by the Federal Circuit in this case will result in only a limited number of cases, like Dow's, involving claims of inequitable for damages. There is a "habit of charging inequitable conduct" as a defense "in almost every major patent case" that led the Federal Circuit to warn a decade ago of the "absolute plague" in patent litigation arising from such charges. *Burlington Industries, Inc.* v. *Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988). Moreover, when the dissenters warned their fellow judges on that court about the "plague" that would spread by allowing claims of inequitable conduct to be pursued in damages cases, not a single one — neither in this case nor later in *Hunter Douglas* — disputed them. Instead, Judge Clevenger was content in this case to opine and in *Hunter Douglas* to write for the court of appeals that all of this litigation would flow into federal courts for exclusive review by the Federal Circuit.

3. Unwittingly, Dow itself illustrates the "mischief" decried by the dissenters below that flows from the decision in this case. Dow notes there is no circuit conflict on the issue raised by Exxon and suggests that preemption issues "can and do percolate in the regional circuits," because "[t]he Federal Circuit does not have exclusive jurisdiction over patent preemption issues." (Opp. 6 & n.1). Strangely, Dow cites *Hunter Douglas*, 153 F.3d at 1333 to support this argument. In fact, as Exxon stated in its petition (Pet. 18 n.14), *Hunter Douglas* establishes as the law of the Federal Circuit that federal district courts have exclusive jurisdiction over claims like those made by Dow here, subject to the

Federal Circuit's exclusive appellate jurisdiction under 28 U.S.C. § 1295(a)(1). 153 F.3d at 1337-38.

This is not the place to debate whether Dow or the Federal Circuit holds the correct view of that court's exclusive jurisdiction. It is, however, the place to observe that the confusion introduced by Dow's opposition brief regarding Federal Circuit, as against regional circuit, jurisdiction is part of the "mischief" decried by dissenters.

4. Finally, Dow advances its own policy argument when it points to the "dramatically illustrate[d] . . . practical dangers of creating . . . a legal no man's land" (Opp. 15) that would allow tortfeasors "to get off scott-free for the injuries [they have] inflicted" (*id.* at 16). Like most of its opposition, this argument is based upon rhetoric, not fact or analysis.

As previously pointed out, Exxon does not seek the creation of a "legal no man's land," but instead argues that the standards of *Walker Process* fraud, which this Court set as the proper accommodation between the protection of patent rights and the imposition of antitrust damages upon patentholders, should be applied to strike a proper accommodation of virtually the same interests here.

Moreover, nothing in Dow's complaint (which it has attached as an appendix to its opposition) supports the charges that it now makes about Exxon's decision to moot the patent infringement issues in this case by filing a statement of non-liability — *i.e.*, the "frivolity" of Exxon's patent infringement notices or the purported "worthless[ness]" of its patent. (Opp. 15). Because the district court dismissed Dow's case after it conceded that it alleged solely inequitable conduct before the PTO, there is simply nothing in the record supporting Dow's assertions regarding the reasons for Exxon's action.

While Exxon will not attempt to prejudice this Court's determinations by asserting facts that are not in the record, it does note that there are many reasons why a patentholder might decide to moot a declaratory judgment action regarding infringement, patent validity or enforceability — *e.g.*, an analysis of the scope of the infringer's sales leading to relatively small damages, as compared to the large costs associated with patent litigation. Allowing parties like Dow nonetheless to continue to litigate inequitable conduct to impose such costs (and even damages) on patentholders for sending infringement notices is most distinctly not "common-sense policy." (*See* Opp. 16). Instead, it offends the policy of removing from the courts cases that have no proper place there.

CONCLUSION

The Federal Circuit has, in the words of the dissenters below, "opened up" a "whole new field of litigation," mostly, if not exclusively, destined for federal courts to litigate state law claims that conflict with the primary objective of the patent laws. This Court should grant the petition to determine the propriety of this broad expansion of patent-related litigation.

Respectfully submitted,

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